

Avoiding the Resource Curse

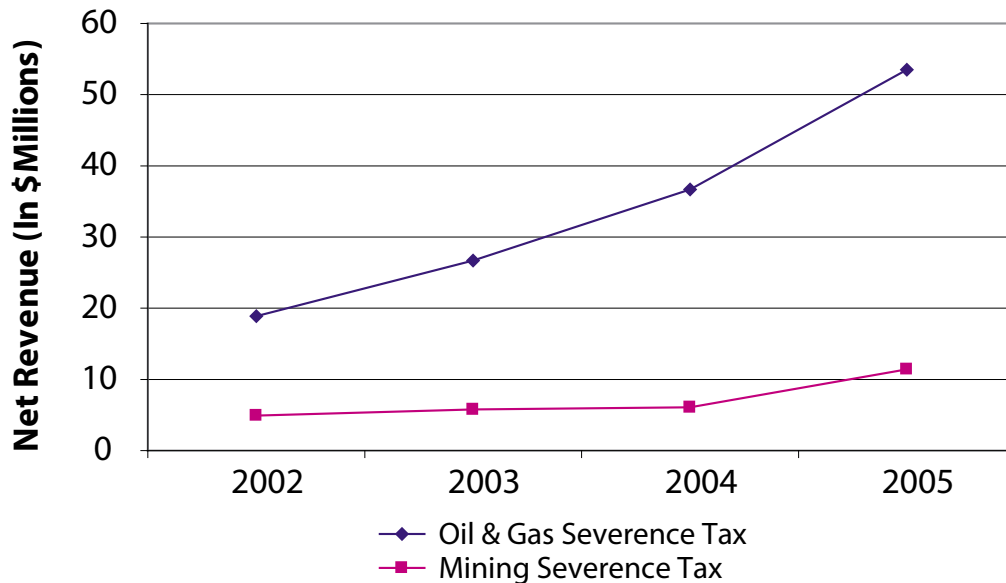


Almost anyone would be familiar with the economic implications of finding a bubblin' crude in the backyard. As such, areas rich in natural resource deposits are generally considered fortunate. The extraction, production, and trade of natural resources supposedly leads to more employment opportunities in the area, not to mention higher incomes. However, resources are finite, and economies that experience these booms in resource production are also subject to the inevitable bust. In fact, recent economic research has shown that rather than getting a boost from the resource rents, many areas rich in

resource deposits struggle through increasingly poor economies, a paradox that economist Richard Auty dubbed the "resource curse".

A resource curse economy becomes overly dependent on resource extraction during a resource boom. That focuses economic activity too narrowly and leaves the economy vulnerable when the bust comes. This is not to say that resource wealth will unavoidably harm growth. Rather, the curse takes hold through neglect of other development factors such as investment, education, innovation, effective management,

Net Utah Tax Revenues by Source (2002-2005)



Source: Utah Tax Commission

etc. For these reasons, resource economies that lack economic diversity have typically been far more susceptible to boom and bust patterns.

Utah's Uintah Basin is currently enjoying a resource boom in oil and natural gas that stems from high prices. The beginning of the boom saw the wellhead price of natural gas jump from \$1.73 per million cubic feet (Mcf) in 1998 to \$3.52 per Mcf in 2002. Correspondingly, the number of producing oil wells more than tripled from 1,643 in 1998 to 4,601 in 2002. Increased production resulted in the creation of new jobs at a high rate. A study of job vacancies in Utah shows that the area affected most by the boom—the Uintah Basin—has the highest ratio of job openings to employed persons of any area in the state. The average advertised wage of job openings was also the highest of any region in the state. Not surprisingly, large portions of open jobs were in oil extraction and industries supporting the boom, like transportation and construction. High wage offers stemming from high demand for labor have also led to significant population growth. Inflation-adjusted monthly wages have also risen, and taxable sales have increased sharply.

At first glance, it may seem that the eastern Utah situation has all the makings of a resource curse economy: higher-incomes and volatile population trends, both indicating an apparent dependence on resource extraction. However, as research has shown, the extent of the curse depends on the extent of the dependency on resource extraction. In the Basin itself, economists are optimistic that the core population is large enough to sustain at least adequate economic activity, thus limiting the negative effects of any bust. As mentioned, researchers claim that negative effects can be displaced by investment in infrastructure to diversify the economy, along with expansion of education to provide a skilled labor force.

Natural resource endowments have proven to be an important part of both large and small economies. Though recent research has shown that over-dependence on the production of that resource can be harmful to economic growth, it is not an empirical rule. Proper management and investment in infrastructure and education has proven to diminish the negative effects of the “resource curse”. 